UNITED STATES POSTAL SERVICE
P.O. Box 149263
Austin, TX 78714-9263

Deliver®

LOYALTY HAS ITS REWARDS

BUILD-A-BEAR WORKSHOP BUILDS A BUZZ

MINI WINS BIG WITH CREDIT CARD

NETFLIX STICKS TO MEDIA MIX

a magazine for marketers

VOLUME 3
ISSUE 3
JULY 2007

GET MORE MARKETING IDEAS ONLINE AT DELIVERMAGAZINE.COM

PHOTO COMPOSITE BY GECKO IMAGING INC.

I'VE ALWAYS BEEN AN ENTHUSIASTIC SPORTS FAN, mostly because of the action on the field — but also because of what goes on in the stands.

College and professional spectator sports give us an opportunity to share an exciting and awesome experience, to participate in something personally meaningful yet larger than ourselves and, ultimately, to belong. This is what drives our passion for our teams, what fuels our loyalty.

Marketers have certainly learned how to foster loyalty over the decades, using everything from frequent flyer miles to pizza shop punch cards. And nowadays, many big brands are using those lessons to help redefine loyalty programs, turning them from mere add-ons to a key part of their core businesses.

From offering sound management advice to actually "loaning" consultants to clients, GE Capital Solutions is among the big names that are pushing the traditional boundaries of B-to-B loyalty programs (p. 14).

Likewise, innovative carmaker MINI has come up with a customizable credit card with incentive offers tailored to appeal to enthusiasts of their stylish rides (p. 10).

Consumers now expect certain standard perks from loyalty programs. With a heavy emphasis on customer personalization, today's best marketing efforts exceed many of those expectations and ensure that the extras are really what the target audience wants or needs.

Marketers, like our favorite teams, know that they can't just talk a good game. They've got to play hard to win — and to win consumers over. And when done right, their efforts are certainly justified by the results. So read on to learn how more marketers are finding success in a loyalty game whose rules are rapidly changing.

And, as always, have a ball!

VOLUME 3
ISSUE 3
JULY
2007

06

20

22

CONTENTS

COVER ILLUSTRATION BY
RED NOSE STUDIO

UNITED STATES POSTAL SERVICE

WE WANT TO HEAR FROM YOU – THE GOOD, THE BAD OR THE JUST PLAIN UGLY.

TO CONTACT US, LOG ON TO THE NEW DELIVERMAGAZINE.COM OR WRITE TO US AT:

FEEDBACK
DELIVER® MAGAZINE
P.O. BOX 2063
WARREN, MI 48093

CORBIS

Stop, It's Embarrassing …
I just received the May issue of *Deliver*, and want to congratulate the team on your appearance makeover. Bravo! Eye-catching design is a key component of communicating a current and worldly perspective. I've always valued the thought-provoking content in *Deliver*, and now the updated look better reflects today's more edgy business publications.

Deliver, you're looking good!
— *David Deans, via e-mail*

Spread It Around
Deliver magazine is a great publication. Praise, praise, praise. I want to use this document as a sales tool with my prospects — particularly those that are CRM and e-mail companies. How can I obtain copies of articles from the most recent issue?
— *Ronald Buckman, via e-mail*

Anyone interested in downloading printable PDFs of the articles in *Deliver* can do so at our Web site, delivermagazine.com. The site also has a subscription link for those who would like to start receiving the print magazine.

Any editorial submissions should go to delivermag@usps.com.

MASTERFILE

DELIVER®

EDITORIAL STAFF

Editor
Cat Moriarty

Contributing Editors
Christopher Caggiano
Darrell Dawsey

Copy Editor
Sheila Walsh Dettloff

Creative Director
Laura Rogers

Associate Creative Director
Celeste Hofley

Art Director
Grayson Cardinell

Editorial Director
Dan Grantham

Production Manager
Lynn Sarosik

PUBLISHING STAFF

Publisher
Jeremy Morris

Account Director
Angelo Acord

Group Account Manager
Adam H. Wilson

Associate Publisher
Julie Preston

Project Management Specialist
Mary Carlington

Publication Coordinator
Kristen Marino

Deliver is published six times yearly by Campbell-Ewald Publishing, a division of Campbell-Ewald, 30400 Van Dyke, Warren, MI 48093-2316. Tel: 586.558.5249. Visit *Deliver* at delivermagazine.com, or send us an e-mail at delivermag@usps.com.

Subscription rates for the U.S.A.: $3.95 per issue. Subscription requests should be sent to: Deliver, Subscription Center, 30400 Van Dyke, Warren, MI 48093-2316. If you prefer not to receive *Deliver*, please e-mail us at delivermag@usps.com. Manuscripts and photographs are submitted at the sender's risk. Enclose a self-addressed, stamped envelope for return of material. Submission of material implies the right to edit and publish all or in part. Your information is protected by our privacy policies. See usps.com for details. Unless otherwise indicated, the Postal Service does not endorse any individual or company, nor any service or product not offered by the Postal Service.

PRINTED ON RECYCLED PAPER WITH 20% POSTCONSUMER WASTE

Keeping It Simple

"A Bird in the Hand Is …" "Do unto others as you would have them …"

No doubt you were able to finish those statements. For centuries, people have. They're short, simple, easy to understand. The ideas behind them are complex. The statements are not.

In their new book *Made to Stick*, authors (and brothers) Dan and Chip Heath argue that simplicity is at the heart of creating ideas, and messaging, that sticks in our minds. That doesn't mean that the ideas they suggest are not complex — "do unto others as you would have them do unto you" is a quick summary of a philosophy that can guide every one of your actions — it's just the statements that are simple.

Think of how this works in your own life: You meet someone new at the neighborhood barbecue and they ask what you do. You rarely dive into the details of your everyday work or overall responsibility. More likely, you have it summed up in less than 10 words: "I work in marketing" or "I'm head of marketing for XYZ company." Short, simple, easy to understand.

So why is this so tough when it comes to creating messaging for our brand or products? The Heath brothers would tell us we're cursed with knowledge. We know too much about our brand and we try to cram it all in. We try to cover all aspects of what it means instead of focusing solely on the core. By doing so, we shift the focus away from short, simple, easy to understand.

Try this: Jot down all the corporate taglines you can recall off the top of your head. Then look them over. You'll see a pattern: short, simple, easy to understand. Then make that your mantra going forward, to make sure your marketing follows suit: short, simple, easy to understand.

After all, you can spend a lot of time making sure your messaging fits the brand, but it doesn't matter if no one remembers it.

NUGGETS OF WISDOM

Tips to help you take your marketing to the summit — Sherpa style

Sometimes the best ideas are the simple ones. MarketingSherpa is a research firm that tracks what works — and what doesn't work — in all aspects of marketing. Every year, the MarketingSherpa editors compile marketers' best tips into their marketing Wisdom Report.

"We've been doing the report for five years now, and the number of submissions keeps growing each year. There's quite a competition to get included in the report," says Tad Clarke, editorial director of MarketingSherpa. "The Wisdom Report lets marketers help other marketers. We let them share their test results or strategies with one another so everyone can learn from each other and, ultimately, improve their marketing."

We chose five representative tips from the 110 entries in Marketing Wisdom for 2007. To download the full PDF report, go to wisdom.marketingsherpa.com.

Here are some choice picks from this year's report:

1 STAND OUT WITH A GIFT

When Logos Bible Software found that many recipients were deleting their marketing e-mails unread, they realized that direct mail was the way to go. Their problem: standing out among all the other mail in their prospects' mailboxes during the holidays. So at Christmas they sent prospects a package — after all, who can resist opening a box at Christmas? — with a branded water bottle and a coupon inside. They had a 15-percent response rate and generated 400 percent of the program's cost in sales. "They truly tried to do something different from sending Christmas cards and break out of the clutter of the holiday mailbox," says Clarke.

2 INFORM INSTEAD OF SELL

YellowPagesProfit.com's job was to improve upon the sales letter of a client in the real estate industry. Their original letter was the typical hard sell. The revamped letter educated the recipient about a little-known mortgage service and included a real-life case study of a customer who refinanced their home using the service. The new letter garnered four times the response of the old one, and the consumers who called were actually grateful for the information. "So much today is sell, sell, sell, but being a useful resource is very valuable, too," says Clarke. "We don't always have to hit people over the head with a marketing message — make it a resource that people will come back to."

3 KEEP THE MESSAGE CONSISTENT

An Ohio-based marketer created a well-tested campaign that drove people to the client's Web site, but unfortunately the site gave prospects a mixed message: While the client was in the business of providing investment help — and that's what the marketing campaign was about — the Web site unintentionally made the company look like a mortgage lender. The direct mail campaign pulled in three times the response of the client's previous efforts, but once prospects got to the Web site and saw the mixed message, they failed to convert. "It goes back to synergy," Clarke says. "When you're doing multichannel marketing, make sure it's the same message throughout all your channels."

4 DOUBLE-CHECK MAILING LISTS

Sometimes, it's the people whom you don't mail to that make the most difference in your campaign. KC Associates created a direct mail campaign with expensive, personalized components: CDs with three company videos and several PDF files on its services, plus an insert with a superhero image that matched the gender of the recipient. Each insert had a printed message reading "[Recipient's Name] vs. the Supply Chain," implying that the recipient could be a hero by using the company's services. But because the pricey packages were personalized, the company wouldn't be able to reuse any returned packages. So after building a list, staffers called each company to verify the name, title and address. The result? More than 30 percent of the prospects watched the CD, 6 percent entered the sales cycle, and a third of those converted, producing more than $500,000 in revenue. Says Clarke, "If you're not using the right and most up-to-date list and segmenting it down to the right number of people, you're wasting a lot of money."

5 KEEP URLS SHORT

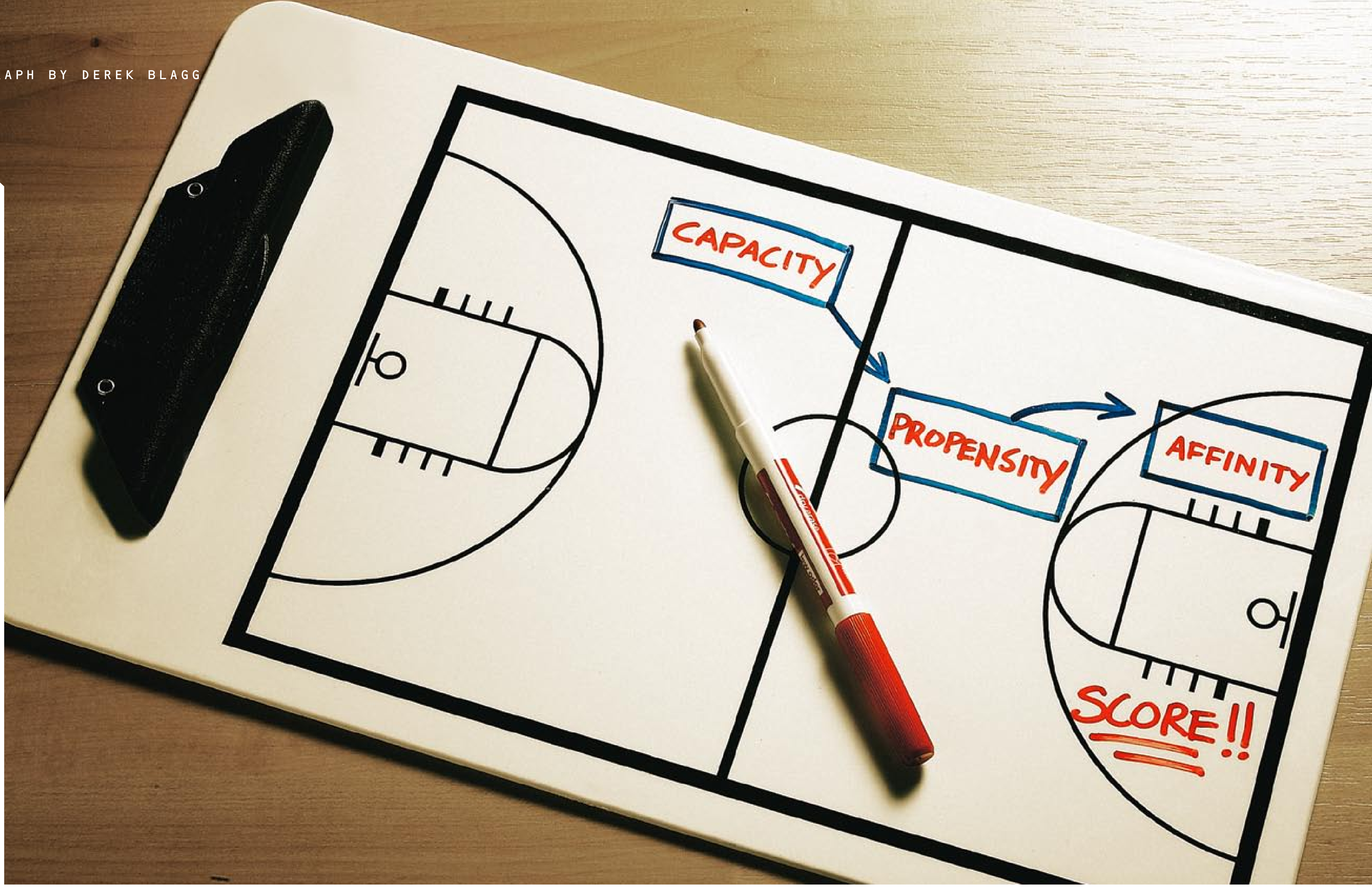
The direct marketing firm DME created two campaigns that were similar in strategy and data quality, and couldn't figure out why one pulled in so many more responses than the other. Eventually it became clear: The more successful campaign sent prospects to a Web site with a shorter URL, or Web address. "The shorter and more memorable you can keep it, the better," says Clarke. "This makes it easier for people to remember, especially if they're not next to a computer when they read it." D

CORBIS

BY SAMAR FARAH//PHOTOGRAPH BY DEREK BLAGG

A WINNING GAME PLAN

A basketball team turns to direct to put more fans in the stands



Its roster of young stars having nearly made the 2006 playoffs, the Orlando Magic basketball team was looking to continue its positive momentum, both in the front office and at the box office.

That's when the team got an assist from Echelon Marketing Group.

Using a complex mathematical model, Echelon helped the team drive up season ticket sales and achieve some impressive marketing results. "It's one of the best showings of any of our database marketing efforts to date," says Magic database marketing manager Chris Watson.

In fact, the team led the league in new full season sales during the 2006–07 season, says Don Neal, president of Virginia-based Echelon. The Magic also made the 2007 playoffs, its first appearance in four years.

Echelon started with the Magic's ticket-holder information, combined that with its own extensive database, and ran the sum data through its homespun methodology, which it calls the CAP index.

The result was a map of the Orlando Magic stadium during game time, with viewers grouped into three categories: those who could be easily up-sold, those who were weak prospects, and those whose up-selling potential was difficult to read. Armed with that information, the team put its telemarketing team to work, concentrating on the fans most likely to upgrade to a season-ticket subscription. As a result, the team was able to upgrade account holders into 37 new full season seats, jump-starting their partial plan upgrade campaign.

A color-coded map may not sound glamorous, but Neal believes Echelon's style and philosophy — a reliance on numbers, complex computations and rigorous analysis — is in vogue because tighter budgets have all but eliminated corporate tolerance for marketing that isn't hitched to ROI. And this is an area where direct has always had the home-court advantage.

"Direct and database marketing have never been sexy," Neal admits, "but they're increasingly getting more sexy."

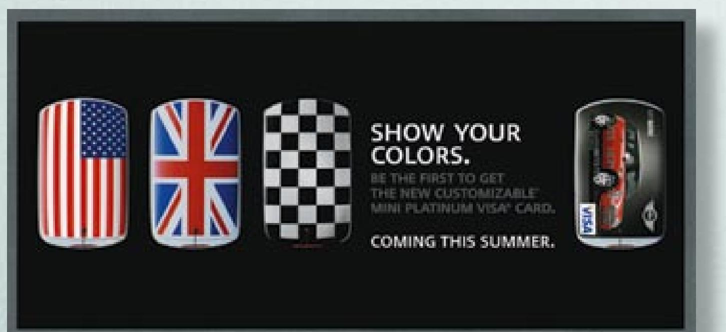
Neal says most of Echelon's clients are on board with the importance of direct and database marketing, and can even provide their own robust databases. "Most companies have some level of sophistication," he notes. But "that sophistication doesn't get leveraged across the company."

Still, it's the proprietary CAP framework that Neal is most proud of. The acronym stands for three categories of economic consumer data: Capacity, Affinity and Propensity. Working with client-borrowed data and its own database, Echelon calculates prospective consumers' capacity to buy a specific product, their potential affinity with a brand, and their propensity to buy a product at a particular time and place.

All three categories are important to the final index, Neal says. For example, a consumer who has just purchased a car may have the "capacity" to buy another but is unlikely to be in-market. That prospect's "propensity" drops dramatically, which lowers his or her CAP index. By aggregating all three factors, Neal believes, the Echelon CAP index goes beyond typical geographic and demographic categories.

Neal hopes the CAP becomes an industry standard and a common technique to better target customers and prospects. And if all it takes is a little Magic to make that happen, then he's already halfway there. D

BIG SURPRISE
The MINI credit card (actual size not shown) allows customers to include an image of their ideal MINI car model.



MINI CARD / BIG REWARDS

MINI stokes brand loyalty with its customizable credit card

MINI CAR OWNERS ARE a passionate bunch. And the people who produce the wildly popular car have discovered that MINI aficionados want just as much fun from their brand experience as they receive from their vehicle.

MINI Financial Services, a division of BMW Financial Services North America, turned to its loyal customers through focus groups in 2006 as it designed a new credit card for MINI enthusiasts — both owners and wannabes. These customers are a discriminating and demanding group, says Andrew Pine, general manager of marketing at MINI Financial Services.

And MINI likes that. "We want to make sure we can give them everything they need," Pine relates. "We heard back loud and clear their appreciation for individuality and customization." When people think of a MINI vehicle, Pine says, they think fun, compelling design, and unique packaging. In response, MINI created a credit card that incorporates those brand values.

A major part of MINI's integrated marketing approach is direct mail, which Pine says serves the needs of both the brand and its fan base. "We can target customers through prescreened offers to make sure the customer experience is up to the high MINI standards," Pine says. "Customer feedback shows MINI customers like receiving mail and additional information from us to at least know what's available."

Before MINI launched its credit card in July 2006, the company mailed teaser statement inserts to its MINI Financial Services' customers with auto-financing accounts in May and June. These two-sided, full-color inserts promoted the unique benefits and features of its new MINI card — specifically the customization potential. The first piece provided a high-level overview of the general concept, and the second piece provided more specific information about the card and its benefits.

The company also sent a customized letter package with a card application to owners and prospects who had attended an event, called customer service with a question, or requested information from MINI's Web site. Currently, about 70 percent of card owners are MINI motorists, while the remaining 30 percent are prospects.

In the focus groups, dealers and MINI motorists suggested credit card features such as MINI "valet miles": for customers who are located a fair distance from one of MINI's 80 dealerships, a dealer representative will drive a loaner car to the customer's home or office, take the customer's vehicle back for service, and return it in the same manner. Another reward enables customers to receive up to $5,000 back on their next MINI purchase and another $5,000 back when they finance through MINI Financial Services.

Customization is huge with the MINI brand, and the credit card is no different. A favorite aspect of the card enables MINI owners and brand enthusiasts to design their own image of their ideal MINI on the credit card using a Web-based configuring system. Card users can select the vehicle model, color and external options, and can proudly show their "car" to friends, family and store clerks.

Customization is huge with the MINI brand, and the credit card is no different. A favorite aspect of the card enables MINI owners and brand enthusiasts to design their own image of their ideal MINI on the credit card using a Web-based configuring system.

Pine says that customers responded to the card strongly and positively, and the key to that success has been giving MINI enthusiasts what they want. "We took the time to listen and are dedicated to follow through with what they wanted their credit card to do," Pine says. "We've made the MINI credit card experience for the customer mirror that of the brand." D

PUTTING ON THE DOG

Once upon a time, consumer packaged goods marketers dismissed rewards programs as impractical. These days, though, CPG companies such as pet food mainstay Purina are making sure that loyalty pays.

CPG marketers can build social networking sites that target market segments, send personalized direct mail and e-mail and offer individualized incentives to slices of their markets.

JUPITER IMAGES

All right. I admit it. Being over the top about my two cats and my dog, I joined a pet food company's "snack lover's club." On the company's micro-site, I can, gee, read my pets' horoscopes (really) or send in a darn cute story about how Peanut won't go to bed until I've given her a tuna fish treat. Yumm. Plus, the company will e-mail me coupons for Grover's favorite biscuits. But do I really want more e-mail — even one that tells me that with Aquarius rising, today might be the day when Grover will get a whole new outlook on life, and here's 50 cents off some doggy beef jerky to help?

So I'm skeptical about what an online pet food club will do for my life. What I'm not doubtful about is the enthusiasm with which consumer packaged goods (CPG) companies like this one are experimenting with loyalty marketing programs.

CPG companies have been among the last companies to adopt rewards techniques, in large part because the obstacles, until now, were seemingly insurmountable. While plenty of top-flight CPG marketers certainly do know their customers, many of their industry comrades remain in the dark and, because of low margins, can't afford to build one-on-one relationships with consumers. But as relationship technology improves and gets cheaper, it's allowing even those CPG vendors who may be behind the times to try to make formerly invisible customers visible.

As most marketers know, point-of-sale systems are now sophisticated enough to allow retailers to track customer purchases, which allows them to build comprehensive profiles of customer behavior and even to do predictive modeling. Using this information, CPG marketers can build social networking sites that target market segments, send personalized direct mail and e-mail and offer individualized incentives to slices of their markets. Thus, it's now possible for virtually all companies to join the loyalty party.

As a result, CPG rewards programs are springing up daily. Purina, for instance, has built a rich program for pet breeders called Purina Pro Club. Huggies has an interactive, educational online community called the Huggies Baby Network for moms who are expecting their first baby or those who are in the midst of raising children. With various companies, consumers can sign up for soda rewards, design a new beverage can online, join a society of whiskey aficionados or exacerbate their coffee nerdness with a coffee lovers' club.

Certain CPG loyalty efforts have a better chance of succeeding than others, suggests Kelly Hlavinka, senior director of Colloquy, which consults on loyalty marketing efforts. She separates CPG products into two categories — higher-ticket, higher-involvement products, like diapers and dog food, and lower-margin, lower-involvement products, like soda and butter. Other than price, the primary difference between the two categories is that companies marketing higher-involvement products can identify specific market segments that care deeply about their products, are likely to stay with the brand and may want to interact not just with the company but with other customers.

Such companies can benefit greatly from well-designed social networking sites. "The affinity facilitated by these virtual environments results in loyalty 'glue' that cements customer relationships both within the community and with the parent brand," Hlavinka contends. "The ones pushing the envelope know the power of the network — allowing members not only to converse with the brand but to connect with one another, to share tips and information. We think it's a natural evolution in loyalty, as operators move from mass communication to tailoring [communications] to members to allowing them to talk to one another."

Hlavinka, for instance, likes the Purina Pro Club, which encourages breeders to talk among themselves. "Breeders earn points for food they purchase, but they also get tailored communications and there are events they can attend." She also likes Nestle's Best Baby relationship marketing program. "If you can establish a relationship when a puppy is coming home or with an expectant mother, you can lock them in. How likely is it that once you have a baby on a particular formula, you're going to switch?"

But Hlavinka, who recently penned a white paper called "Do You Really Want a Relationship with Your Beverage Brand?" warns marketers to avoid applying the relationship marketing model to products that serve mass markets. Instead, she suggests that companies selling low-margin products like soda leverage retailers' loyalty programs, offering, for instance, bonus rewards for buying a 12-pack.

Of course, some CPG products don't fall neatly into one category or another. Consider, for instance, butter. It may be low-margin, but is it really a low-involvement product? Building on the baking industry's long tradition of running cooking contests and providing recipes to customers, one butter maker is offering a rewards-and-recipe program to home cooks. Will "Simple Rewards" whip up ROI for the butter maker? Hlavinka's not sure: "You can see why there might be a deeper relationship with baby formula and pet food. But I'm watching this one closely to see how there might be this deeper relationship with, you know, butter." D

Keep *the* Faithful

Loyalty programs, once regarded as little more than afterthoughts by many major companies, are increasingly becoming part of many big brands' core business

BY ELAINE APPLETON GRANT

JUPITER IMAGES

When Kent Gilmore, the COO of $110-million Nahan Printing, turned to GE Capital Solutions for a loan last winter, the Connecticut-based company didn't just send him a quote.

It sent a consultant.

For two days, Ryan McMillian, a Six Sigma "black belt" with GE Capital Solutions, counseled Gilmore and his colleagues at the Minnesota printing concern on a variety of lean management practices, taking them through cutting-edge strategies designed to help Nahan compete more efficiently in a crowded marketplace. McMillian even provided extra phone consultations afterward.

Even better, McMillian's expertise came free of charge, part of a talent-loan service GE Capital Solutions calls "At the Customer, For the Customer," or ACFC. The program was devised to stimulate long-term relationships with valued business customers.

In Gilmore's case, the innovative loyalty effort paid huge dividends: Nahan was weighing offers to finance a $10-million loan the printer was seeking and had received proposals from GE Capital Solutions and six of its competitors. In the end, Gilmore awarded the business to GE.

"GE Capital Solutions is very competitive in larger loans," Gilmore says. "But certainly ACFC was one of the determinants."

The program hasn't just provided customers a few perks. It has also enhanced GE's bottom line. Sharon Garavel, a senior vice president at GE Capital Solutions, attributes $2 billion in business to the division's 700 ACFC engagements in 2006.

Talk about a way of building loyalty.

Loyalty marketing transformed

Of course, ACFC isn't the sort of loyalty program direct marketers have talked much about traditionally — but this is changing. Loyalty programs are evolving radically, becoming more personalized, more relevant to the consumer experience. Fitness centers, for example, are sending out direct mail invitations to members, offering services that range from childcare to personal trainers, based on members' lifestyle needs. In other instances, health insurers are offering lower premiums to customers who stay fit.

And while old-school efforts like frequent flyer miles and keychain rewards tags remain popular, identifying and filling relevant needs — not unlike determining a company's core value proposition — is becoming more important to retention-minded marketers. The rewards market has been around a quarter-century now, so as the marketplace grows more saturated, it gets harder for companies to distinguish their loyalty programs and ensure reinforcement of their brand message, says Kelly Hlavinka, senior director of Colloquy, a loyalty marketing consultancy and publisher in Cincinnati.

Consequently, sophisticated companies are redefining what loyalty marketing means. "The very concept of 'loyalty marketing' will encompass many more ideas, strategies and tactics than it has in the past," Hlavinka declares.

Other experts trace this expansion in rewards programs to the rise of new attitudes among consumers. No matter how seemingly tenured, consumers are far more fickle today than in previous years, according to Corinne Asturias of Iconoculture, a consumer research and advisory services company in Minneapolis. "Consumers today take a pragmatic approach to life's choices and commitments — in relationships, jobs, neighborhoods and hometowns," she contends. "Loyalty means sticking with something for as long as it's all good." She adds that even seniors, "the most diehard of brand loyalists, have gone bargain hunting and fallen off the 'brandwagon.'"


JUPITER IMAGES

"We've known that some of the best loyalty operators out there understand the power of dialogue with customers, making the conversations with customers relevant to them based on what they've shared with you."
— KELLY HLAVINKA

Given all of these factors, it's little wonder that the freshest loyalty programs offer more than a chance to simply rack up points. Nowadays, loyalty marketers do their best to increase dialogue with customers, to learn about their wants and needs directly, often through Web-based social networks. "We've known that some of the best loyalty operators out there understand the power of dialogue with customers, making the conversations with customers relevant to them based on what they've shared with you," Hlavinka says.

She predicts that more loyalty marketers will use the abundant data they've gathered from rewards programs to transform the customer experience, and by extension the entire business enterprise. Thus, "loyalty marketing" will no longer be an add-on to the business — but will become part of its core.

Measuring love a profitable exercise

As a corollary to this, measuring loyalty will become central to business operations. Last year, GE Capital Solutions began measuring customer loyalty using a simple system called Net Promoter Score (NPS), devised by Bain Fellow Fred Reichheld, author of *The Ultimate Question: Driving Good Profits and True Growth*. The NPS relies on the question "Would you recommend our company to a friend or colleague?" Scorers subtract the percentages of "no" responses from "yes" responses, and the result is the NPS.

GE Capital Solutions surveyed 12,000 customers using the Net Promoter Score. The scores were lower than what GE was hoping for, admits Garavel. "Promoters say, 'You win

> *"If you attract customers through a rewards program, they'll be much less engaged with your brand and more likely to leave the franchise. ... If you attract them with your brand first and then use the rewards program, you have a much more engaged and higher-spending customer."*
>
> — ALIZA FREUD

To receive a copy of the U.S. Postal Service® study "Mail and The Business Decision Maker," log on to DELIVERMAGAZINE.COM/B2BSTUDY

business because you get credit decisions to me quickly,'" Garavel says. "Detractors will tell us, 'You're slower than your competitor, you have more steps, and you're more complicated to do business with.'"

Responding to the NPS scores, which are calculated by customer and also across departments, GE Capital Solutions took significant steps to reduce time and complexity of its financing processes. For instance, the division sponsors "lean showcases," task force–style efforts designed to strip fat out of its customer-response processes. Last year, the organization held 24 lean showcases, all to improve Net Promoter Scores. In one case, a team reduced credit-decision time from 65 minutes to four. "That NPS score [from that particular client] went from a negative 11 to a positive 11 from that event — and we generated a couple hundred million dollars worth of business as well," Garavel says.

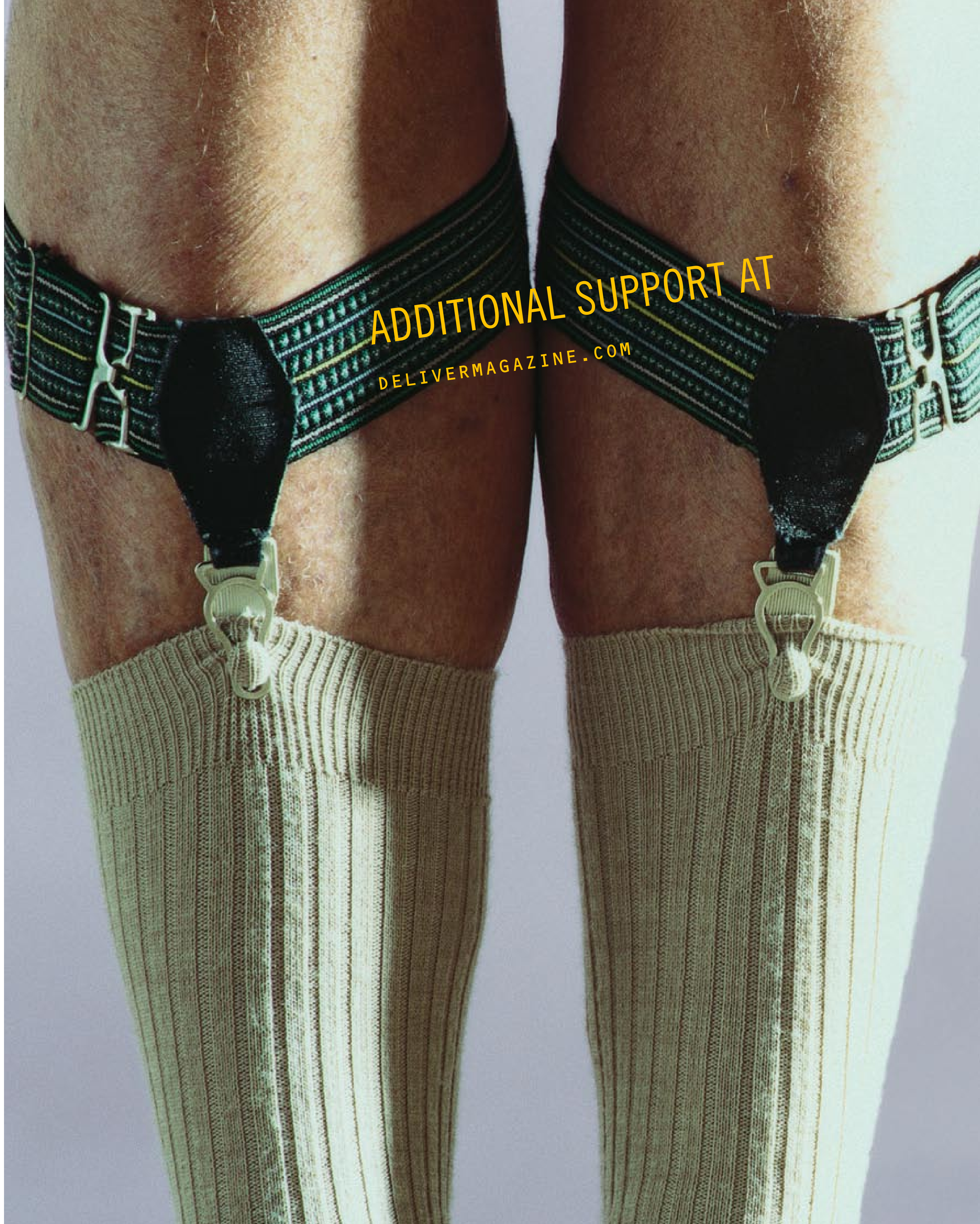
Expensive seduction

The lesson for companies just beginning to work on loyalty? Consider rewards programs as one possible feature of a larger retention program. Experts like Aliza Freud, who for the last decade managed a multimillion-dollar portfolio of business at a large financial services company that included a major rewards-based loyalty program, caution that the customer experience must be of inherent value, or all of the points in the world won't retain a customer.

Freud, who this year founded a product-testing and word-of-mouth marketing company called SheSpeaks.com, says, "If you attract customers through a rewards program, they'll be much less engaged with your brand and more likely to leave the franchise." This is because they've bought your product not because of its inherent worth, but because they want the "prize" from your rewards program. Seducing new customers with the future promise of a luxurious vacation or a flat-screen TV could be an expensive mistake, because once they've won that prize, your brand no longer seems relevant to them — and, in truth, it never was.

On the other hand, Freud says, "If you attract them with your brand first and then use the rewards program, you have a much more engaged and higher-spending customer." In this instance, the rewards are just that — a pleasing addition to the value rewards members are already receiving from your product or service. The difference between attracting customers with a reward program versus using rewards for retention is nearly double in terms of customer value, Freud maintains.

Companies seeking to enhance their brand through loyalty programs should take care to offer rewards that are relevant, says GE Capital Solutions' Garavel. So how can you ensure that your loyalty program enhances your brand, is relevant to your customers, and builds retention? While the possibilities are endless, Garavel has one piece of advice with which you can't go wrong: "Take a look at what you're really good at and share those best practices with customers," she says. "Our view is that it helps your customers grow, and as they grow, they'll need more products and services, and they'll send that business your way." D



JUPITER IMAGES

MARKETING TO NOMADS

To reach the right customers, you have to know where they are

Customers move with the wind, sometimes literally. When Hurricane Katrina struck southern Louisiana in August 2005, for example, the population of New Orleans fell from 485,000 to just a few thousand within days.

That's a problem — especially if you're a marketer whose business depends on reaching them. Of course, not all demographic changes are as severe and immediate as those caused by natural disasters. Neighborhoods also shift due to aging residents, the influx of new ethnic groups, or the appeal of a new hot spot across the country.

All these changes affect how direct mail campaigns reach new and existing customers. One way to look at customer movement is to take census data and grow it out over time — that is, to use the data to predict who will be living where in the future, explains Devon Wolfe, who leads the retail arm of Pitney Bowes MapInfo. The company is a provider of location intelligence solutions, which is a combination of data, software and services that help marketers better visualize and understand this data. "One sample map is a dot density map in which every household is a black dot and an overlay of red dots shows areas of growth," he says. "You can see the changes both positive and negative."

For high-growth areas, Wolfe suggests turning to demographic companies that use new-mover databases, which include information on the age, sex and so on of who's moving. "Many major providers feature these data sets and have a good idea of what's happening on the ground," he says. Another possibility is to look at change-of-address filings with the U.S. Postal Service.® "You can map out these changes and see what the trend looks like," says Wolfe.

For a more precise look at current-population trends, Wolfe suggests tapping into household databases provided by credit card providers. These databases list the homeowner's age and let you target more precisely. By comparing current and past information, you can determine whether your customer base is growing and, if so, which geographic areas deserve more attention.

With a major disaster like Katrina, don't assume that every household in its path is affected the same way. "Katrina was a localized phenomenon," says Wolfe. "St. Bernard Parish is 90-percent devastated, while Metairie looks like nothing happened." Looking at delivery statistics from the Post Office™ provides some information about household activity in the area — and therefore gives marketers clues of where they can direct their efforts — but because abandoned houses and apartments can still receive mail, Wolfe says that other measures are necessary.

Some data providers have turned to remote sensing — that is, aerial and satellite technologies that can monitor activity on the ground. "In the immediate aftermath of Katrina, aerial photos showed where the flood waters were," says Wolfe. "You could overlay those areas with the demographic data you have, and understand the magnitude of the number of people affected. Now you can take aerial photographs and tell which houses have been repaired, which lets you assess what was lost and who's coming back into the area."

Wolfe says that only large-scale disasters permanently affect a region's demographics. "With the average hurricane that hits southern Florida, a category 1 or 2, you see a spike of vacancies, then people come back," he says.

Using the demographic research of a company like Pitney Bowes MapInfo gives you a good starting base for contacting customers, but you have to learn how to parse the data for best results. "If you're a retailer, you don't want to look at blanketing ZIP™ Codes, but rather determine how far away a ZIP Code is from an outlet and how much that household is worth," says Wolfe. "You can have a household close to you that's not really right for your profile, but that household will shop more than someone who's a good fit and farther away. D

PREVENTING DATA THEFT

Security breaches are all over the news. How do you make sure your company doesn't make headlines?

In late 2006, KeyCorp, one of the nation's largest bank-based financial services companies, notified several thousand customers that private information about them — which may have included Social Security numbers — leaked out when a laptop was stolen from an outside vendor's vehicle. And that's just one of the many recent instances of customer data theft that are filling the news. You need to collect your customers' and prospects' data for your marketing efforts. But losing data to theft not only hurts your customers, it also affects your company's public image and impacts your marketing efforts, too.

The best way to mitigate such a marketing disaster is to make sure it never happens in the first place.

But wait: Isn't this a matter for IT folk? In part, yes. But as guardians of a company's public image, marketers need to get involved as well. After all, if a breach were to occur at your company, repairing the damage would certainly fall, at least in part, to the marketing department. So it certainly behooves a marketer to help prevent such an event from happening.

How to do that? Here are five steps your company can take now to stop security breaches from happening:

1 LOCK DOWN YOUR LAPTOPS

Fifty-four percent of data breaches in the last six months of 2006 occurred because of theft or loss of computer hardware like hard drives, laptops or USB sticks, according to Zulfikar Ramzan, senior principal researcher for Symantec Security Response. Most of the advice for preventing this kind of breach is common-sense: Laptops should not be left in cars if they contain any sensitive data. People should also be encouraged to lock their offices when they leave, and always keep their thumb drives in a secure place.

2 ENCRYPT YOUR HARD DRIVES

You may think that encrypting your customers' data will keep thieves at bay, but Paul Henry, vice president of technology evangelism at Secure Computing Corp. of San Jose, Calif., recommends encrypting a company's hard drives as well. If any part of the hard drive on a particular computer is accessible, thieves can scan the drive to create a dictionary of words and phrases. Since people often use words and phrases that are familiar to them as passwords, the thief can launch a "dictionary attack" against your encrypted customer data, using software that cycles through your keywords in search of a working password. Thwart such dictionary attacks by encrypting your hard drives in their entirety.

3 MAKE SURE YOUR VENDORS ARE SECURE, TOO

All the security in the world won't protect you if your vendors are vulnerable. "We make sure our vendors have appropriate security programs and that they follow privacy laws and regulation," says Mike Monroe, KeyCorp's chief communications officer. It's hard for you to prevent a thief from making off with one of your vendors' computers, but holding vendors to privacy safeguards like encryption and virus protection will keep your customers' data as safe as possible.

4 CREATE A FEEDBACK LOOP

Your business operations are in constant flux, so your security measures need to evolve with them. Make sure that someone in your organization is conducting regular internal reviews to determine how your business has changed and what you need to do to keep your customer data secure based on that change. For example, maybe your business has expanded onto another floor of your office building, or into another location entirely. Those ongoing reviews form the spine of your feedback loop. "It's a self-improvement plan," says Randy Sabett, partner in the Information Security and Internet Enforcement Practice Group at Sonnenschein Nath & Rosenthal LLP. "The notion is to have a way of revising your security policy in response to changes to your normal operations."

5

It was here a minute ago ... D

BY SAMAR FARAH//PHOTOGRAPH BY DEREK BLAGG

NETFLIX IS EVERYWHERE

The movie rental giant has won over millions of members with a marketing philosophy driven by one simple goal: ubiquity

Lately, Netflix marketers have been trying to redecorate the country in red and white, the brand's highly recognizable signature colors. Netflix banner ads litter the cybersphere like New Year's confetti, and the company's postcards and free-standing inserts pop out of newspapers and coupon packs.

And if you haven't found a Netflix flier masquerading as a movie ticket tucked into the envelope with your theater tickets, or caught the brand's TV ads featuring eclectic Hollywood characters, then there's a good chance the Netflix Rolling Roadshow stopped in your town last summer. Residents and vacationers in Martha's Vineyard, for example, were treated to showings of a classic horror movie.

You might say the little upstart that could is all grown up. In February, Netflix celebrated a milestone: 1 billion DVDs and counting shipped since the online movie rental service launched eight years ago. That's less time, says Steve Swasey, Netflix director of corporate communications, than it took a certain fast-food giant to sell 1 billion hamburgers.

At a time when many brands are reining in their mass media, the Netflix brand has a strong presence in nearly all marketing channels, from network television and radio to free-standing inserts, direct mail, promotions, events and Internet advertising. While most marketing departments are doing all they can to narrow and target their efforts to reach prospective buyers, could it really be true that Netflix is opting for ubiquity?

"I think that word — 'ubiquitous' — describes us well," Swasey says.

Swasey says while the company does segment prospective members into groups such as soccer moms or late-night TV viewers, the brand's target is essentially broad. In short, Netflix wants to attract anyone who watches TV and owns a computer. More and more, Swasey points out, that group cuts across many demographics in the United States.

He won't divulge how the marketing budget is distributed across channels, but does say the brand's strategy is to maintain a rigorous presence in all channels, while tweaking budget allocations according to the success of individual campaigns.

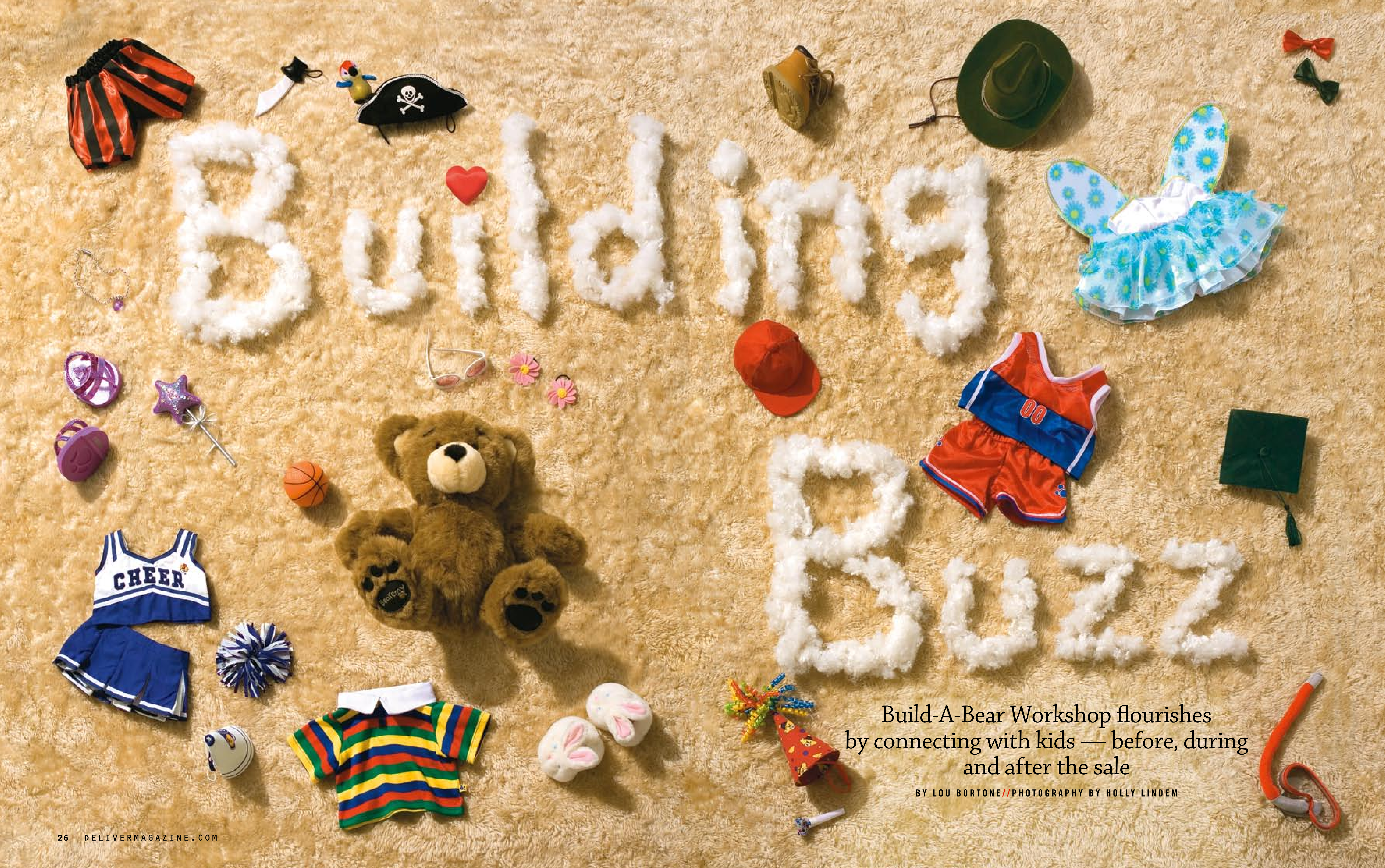
The most effective channel, according to Swasey, has been word of mouth. "We poll members all the time," he explains, "and more than 90 percent say they talk about us with friends." Moreover, based on the company's polling, more than 85 percent of new Netflix members say they joined because of a friend's recommendation. The company occasionally nudges its members with an e-mail gently asking them to spread the Netflix word — what the company calls its "tell-a-friend" campaign.

One of the company's most effective marketing avenues has been direct mail. According to Swasey, Netflix has employed direct-mail marketing since early 2000 — relying primarily on two pieces of mail: a bright red 5x7 or 6x9 postcard shaped like a movie ticket, and an envelope with a three- to four-page letter from the marketing department, explaining the service and showcasing Netflix's inventory of DVDs. Swasey describes the items as "standout, attention-grabbing, and response-initiating."

More important, Swasey says, is that the actual envelopes that the DVDs arrive in grab the recipients' attention, and reinforce the brand, in a way that credit card offers and fliers can only dream of doing. Netflix members eagerly check their mailboxes, anticipating the telltale red envelope with the personally selected DVD. It's a model for direct mail marketing that, Swasey says, is very effective and engaging.

So why bother with other marketing channels? That's an easy one for Swasey: Netflix has 6.8 million members, but there are 300 million Americans. It's hard to believe, but "there are still people who don't know what Netflix is," he says, adding that the company expects to add millions more members in the years to come.

Still, some marketers might be concerned today about hitting consumers from too many angles. For Netflix, it seems the risk might be in potentially undercutting its original image as a startup and a hip renegade in the movie rental industry. But Swasey is not too worried. "We're not a startup anymore," he says. "We're not General Motors or General Electric, but we're growing." D



Building Buzz

Build-A-Bear Workshop flourishes by connecting with kids — before, during and after the sale

BY LOU BORTONE//PHOTOGRAPHY BY HOLLY LINDEM

GRIN AND BEAR IT
Since founding Build-A-Bear Workshop in 1997, Maxine Clark has watched her company grow into a global behemoth with over 300 locations worldwide. Build-A-Bear Workshop has sold more than 50 million stuffed animals in 10 years.

COURTESY OF BUILD-A-BEAR WORKSHOP

My eight-year-old twins used to dread being dragged to the mall. For them, shopping was a bore and, other than a quick stop at the food court, the mall held no allure.

Then one day, they got an invitation to a birthday party in the mail. But this didn't look like just another invitation to just another party. The colorful invite shouted "LET'S CELE-BEAR-ATE!" and asked the kids to meet at the Build-A-Bear Workshop store at the mall. So, on party day, off to the mall we went. Two minutes into the Build-A-Bear Workshop birthday bash, my kids were hooked. This wasn't just a birthday party, it was an experience.

We were greeted at the store entrance by a friendly "First Impressions Bear," who explained the concept. During the half-hour stuffed-animal-making process, the kids were immersed in a unique, interactive environment featuring eight different "stations."

First, we selected a stuffed animal from their collection of about 30 choices; then the kids stuffed it themselves at the store's larger-than-life stuffing machine. The kids then picked out a little heart, made a wish, and placed the heart inside their new friend before the animal was stitched up. Then came the clothes, hats, shoes and other props to further customize their creation. At each stage of the customization process, a zealous Bear Builder associate helped the kids create their own personalized animal.

Today, our home is filled with over a dozen of these individualized furry friends, and trips to the mall are a welcome diversion. A typical Build-A-Bear Workshop family like ours makes five or more trips to Build-A-Bear Workshop each year. At an average sale of $35 for bears and accessories, it's no wonder that, in fiscal year 2006, Build-A-Bear Workshop clawed its way to $573 per square foot in annual sales — nearly double the U.S. average for mall stores.

Selling the brand experience

Build-A-Bear Workshop is the brainchild of retail veteran Maxine Clark, and has sold more than 50 million bears at over 300 locations worldwide since she launched the company in 1997. With legions of delighted children spreading the word by mailing out birthday party invitations, or through simple "bear buzz," Build-A-Bear Workshop now enjoys the kind of customer loyalty usually reserved for the likes of Harley-Davidson and Apple.

"We sell the brand experience," says Clark, founder and Chief Executive Bear. "That means we sell not only the product, but the fun and unforgettable memories of making your own stuffed animal, which are just as important as the product."

Much of the company's explosive growth is the result of young customer evangelists spreading the word. "When guests connect with a brand and feel a real connection to the product or offering, they want to tell their friends about it," explains Clark. "This viral aspect of our brand is powerful. Our guests have so much fun that they share their stories with their friends and family members, who become future guests."

Build-A-Bear Workshop is a success because it is a textbook case study in customer evangelism, according to Ben McConnell, co-author of the business books *Citizen Marketers* and *Creating Customer Evangelists*. "Maxine Clark has engineered a strong word-of-mouth experience, and she hires very personable employees, many of them former teachers," he says. "Those employees have weeks of training before ever setting foot on the sales floor. Those two elements combined can generate passionate word of mouth and a sense of believing in the company. People are more loyal to people than brands, and Build-A-Bear Workshop innately understands this."

The store is a stage

Clark credits much of the word-of-mouth success to simply bringing entertainment back to retailing. When creating the Build-A-Bear Workshop experience, she drew upon her 20 years at a major retailer, as well as upon the advice of an early mentor. As Clark recalls, "Early in my career, a CEO whom I really respected and wanted to emulate said, 'Retailing is entertainment and the store is a stage. When the customer has fun, they spend more money.' This has been a guiding principle throughout my retail career."

During the Internet boom, when some were tolling the death knell for malls, Clark believed that "brick and mortar" retailers just needed an injection of entertainment value. She took a cue from Starbucks, which had taken a commodity and transformed it into an icon and a brand with personality. "Neither Starbucks nor Build-A-Bear Workshop invented the products that we sell," admits Clark, "but we invented how to sell them better."

Clark says she was looking to recreate the magic and excitement she felt as a child when visiting certain stores — when going shopping was an event. "The light bulb went off for me when I was shopping with my next door neighbor's daughter, Katie, who at the time was 10 years old," Clark recalls. "It was during the height of the beanie animal craze and Katie was frustrated at not being able to find the one she wanted. Katie suggested making them. She meant go down to the basement and start a craft project, but I heard something else. I heard something much bigger."

> "When guests connect with a brand and feel a real connection to the product or offering, they want to tell their friends about it. This viral aspect of our brand is powerful. Our guests have so much fun that they share their stories with their friends and family members, who become future guests." — MAXINE CLARK

Cuddly connections

Besides the obvious in-store connection Build-A-Bear Workshop makes with kids, the company uses direct mail, e-mail and their Web site to communicate with their young customers and parents. Because the company knows the birthdays of its customers, they mail "plan a party" reminders

Clark and the Build-A-Bear Workshop crew demonstrate many of the tenets of creating a top-performing loyalty program: Get feedback from your customers, make it easy for them to tell others (parties, the Web site) and keep in contact (birthday cards).

out to parents 90 days before the birthday. In addition, the Web site includes many fun and interactive elements, from their "Build-A-Bearville" online play environment, to personalized Hug-Time® phone calls from their mascot, Bearemy, to HoneyCard® e-cards that kids can send to their friends. The company also produces a monthly newsletter that customers can receive by e-mail.

Clark is also intent on constant, personal contact with her customers. She encourages the stores to give out her e-mail address, and she and her team answer hundreds of e-mails and letters each month. Clark created the company's "Cub Advisors," an advisory board made up of kids, very early in the company's history. The process began with Clark meeting with a group of 10 kids, ages 5 to 16, but has grown to be more of an informal global network, with much of the feedback coming from "advisor" e-mails. Clark still personally visits two stores per week.

"Every day I listen to what young children have to say," Clark notes. "And not just so I can figure out how to make them or their parents buy more from our stores. Kids are just plain insightful. They look at the world differently from how most adults see it. We listen to our guests and take their feedback and suggestions to heart."

Of course, the kids don't think much about brand loyalty or customer evangelism. They just know it's fun to visit Build-A-Bear Workshop and even more fun to walk out with their own creation. "The Build-A-Bear Workshop experience is about making something that is mine, about putting something together in a unique way," adds Clark. "It's about personal self-expression and creativity and being in a place where it's all right to just be a kid again. It's empowerment, it's accomplishment, it's magic all rolled up into one."

Clark and the Build-A-Bear Workshop crew demonstrate many of the tenets of creating a top-performing loyalty program: Get feedback from your customers, make it easy for them to tell others (parties, the Web site) and keep in contact (birthday cards). But ultimately, it's all about the experience of creating your own stuffed animal.

"Connecting with our guests and creating a wonderful experience for every person who enters a Build-A-Bear Workshop store is our brand promise," relates Clark. "We like to believe that guests who enter Build-A-Bear Workshop stores are really getting their stuffed animals free and are paying for their experience in our store." D

LESLYE SMITH

Making It All Work as One

PITNEY BOWES AND DIRECT MAIL: a match made in heaven, right? Absolutely. At Pitney Bowes, direct marketing is a critical component of our customer-acquisition strategy, particularly as we move deeper into the small-business segment of the market. Well over 80 percent of our new customers in the small-business market come to us through direct response.

We also use direct to service our customers and to continue to sell to them as well. Most of our small-business customers are not called on by field-sales reps, so we communicate with them by mail, phone and the Internet. We mail out annual catalogs from our supplies organization, through which we sell not only postage-related materials but other office supplies as well. We also use mail to communicate critical information. The recent postage rate change, for example, required timely and easily understandable communications. And we used the mail to report the rule changes to all of our customers.

What makes direct mail so effective is that it's visual and graphic, which makes it particularly helpful when we're trying to extend the brand, launch new products, or extend the functionality of existing ones.

For example, when we launched our mailstation™ product as a replacement for our Personal Post™ postage meter, we saw response rates go up markedly with direct mail because we were able to pictorially show the new product. So the power of mail told a story that couldn't be replicated on the phone.

What's more, our customers who respond to direct mail exhibit a higher degree of loyalty. Because they make the conscious decision to call us or to respond over the Internet, we get much greater buy-in. They become very qualified customers, they have little buyer's remorse and a low cancellation rate.

We know they're very interested because they've taken the time out of their day to respond: They've received the direct marketing piece and, at a time convenient for them, have taken control of the selling process. When you do outbound telesales, it's the time and place of the seller's choice, not the buyer's. Direct mail isn't nearly as intrusive.

But in order to stay relevant, direct mail needs to become part of an integrated approach to marketing. Most of our customers who respond to our direct marketing do so through a different channel. We get their attention through the mail, but we typically hear back from them on the phone or over the Web. It's important to give customers that convenience: Direct mail lets them discover more about Pitney Bowes at their convenience, and telephone and the Internet give them the convenience of contacting us when they're ready.

We've been very successful at acquiring customers with direct mail, but our future challenge is to continue to leverage direct mail as we move from a transactional sales model to more of a customer relationship–management approach.

Our job has become much more complicated than simply acquiring lists, running them through a modeling program, and counting the responses. The challenge becomes moving away from being campaign driven to more of a relationship-based model, and when you're talking about 850,000 small businesses, that's no mean feat.

As we expand, direct mail will remain a major component of the channel mix. It will continue to be a vital part of our customer communications. D